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C O N F I D E N T I A L SOFIA 000381

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E.O. 12958: DECL: 07/09/2019

TAGS: [PGOV](#) [BU](#)

SUBJECT: BULGARIA: COALITION MANEUVERS

Classified By: Ambassador Nancy McEldowney for reasons 1.4 (b) and (d).

¶1. (C) Summary: Eight days after the July 5 elections, the shape of Bulgaria's next government remains unclear. The Blue coalition of UDF and DSB (pro-West center-right parties) barely squeaked into parliament after winning 6.7 percent of the vote, though most assumed they would play a king-maker role by joining forces with front runner GERB, Sofia Mayor Borissov's center-right party. In a surprise move, Borissov is now contemplating a minority government that would rely on pledged support from a variety of parties, including extremist Ataka. He is also considering an effort to split the Blue coalition, to jettison DSB Chairman and former PM Ivan Kostov, and may offer UDF the Foreign Ministry as incentive to ditch its campaign partner. With the new parliament being convened on July 14, the pressure is on to finalize negotiations and Borissov hopes to install a new government before the end of July. End Summary.

¶2. (C) In a series of post-election meetings with Blue Coalition co-chairs Martin Dimitrov (UDF) and Ivan Kostov (DSB), Ambassador discussed on-going coalition negotiations and reviewed the priority tasks facing the next government. Dimitrov expressed strong support for GERB, as the major victor with almost 42 percent of the vote, and said that the Blue Coalition would be willing to join a government without demanding any ministerial portfolios. Kostov took a different stance, first insisting the Blues had "earned" representation in the cabinet via several ministerial slots, and then said he expected to place experts within each ministry. Both acknowledged that GERB held the upper hand in the negotiations and that time was running short.

¶3. (C) Ambassador noted that the new government (whatever its final composition) would need to deal immediately with two major challenges: the economy and corruption. She urged quick action on key issues to demonstrate the new government's commitment and suggested steps it could take using executive powers alone. It could start repairing relations with the EU by instituting world-class oversight procedures and expediting the stalled court cases dealing with embezzlement of EU money. Problems with public procurement tenders could be reduced simply by having a credible observer (opposition member, academic, technical expert) involved. A special panel of honest and competent judges could be an effective tool for organized crime and high-level corruption cases. The Ambassador urged them to attack crime and corruption aggressively, but to avoid the appearance of partisanship. All should be equal under law.

¶4. (SBU) Both Kostov and Dimitrov were hesitant toward an IMF standby agreement. They would rather avoid an agreement and hope to make it through to next year when they expect the crisis will "soften." At the same time, they said they would want to keep talking with the IMF and have a draft agreement ready to submit if necessary. The Ambassador told both that to minimize the pain of the crisis Bulgaria needed to be attractive as possible for FDI, and could do so quickly by resolving existing commercial disputes and developing a

comprehensive package of investment incentives.

15. (SBU) The Ambassador underscored the importance of promoting transparency in energy transport and noted that the Extractive Industries Transparency Initiative (EITI) was prepared to develop a program for Bulgaria. Though designed for extractive industries, the EITI model can easily be applied to energy transport. Both Kostov and Dimitrov expressed interest. Kostov spoke out against the troubled Belene nuclear power plant project. Ambassador advised him to look at the hard economic and technical facts, bring in international design and safety inspectors from the IAEA or another reputable group, and then make a judgment on those facts.

16. (SBU) Noting the potential to further deepen our defense partnership, the Ambassador suggested Bulgaria consider greater NATO use of its joint training facilities, such as training NATO soldiers to participate in Operational Military Liaison Teams (OMLT) in Afghanistan. This could be an important supplement to Bulgaria's troop contributions for the NATO operations in Afghanistan.

17. (C) Kostov confirmed that Ankara had supported the ethnic-Turkish Movement for Rights and Freedoms (MRF), widely viewed as Bulgaria's most corrupt party. The alleged support included cash for the campaign and relaxing border crossing procedures to facilitate Bulgarian Turks resident in Turkey crossing into Bulgaria to vote. He said good relations between Bulgaria and Turkey were essential and this type of interference must stop.  
McEldowney